

884A.19/3-1053: Telegram

The Ambassador in Israel (Davis) to the Department of State

SECRET

TEL AVIV, March 10, 1953—6 p. m.

1426. Joint Embassy-TCA message. Embassy telegrams 1305 and 1306.¹

In effort "synchronize" with financial discussions being initiated Washington by Israel Embassy, Foreign Minister Sharett asked me to meet yesterday with him, Minister Finance Eshkol, Avriel and Bendor. Meeting was attended also by Russell, McDaniel and Jones. Principal points made by Sharett follow:

1. Israel Government has honored obligations undertaken in notes exchanged last September, having avoided further increase in short term debt total. This had been done he said at cost reduction standard of living, deferment development program, and rise unemployment.

2. Unwieldy short term debt remains, nevertheless, and imposes both financial and administrative burdens. By putting foreign exchange operations on cash basis (paying off all supply creditors but retaining bank fees) Israel Government estimates refunding operations would yield \$10 million saving in financial costs. Would also enable Israel Government officials plan more rationally.

3. While Israel Government has actually reduced total short term debt by over \$20 million, shortfall \$20 million expected from April 1 through June 30. Sharett stated Israel Government will do utmost meet this itself along lines previously reported (see Embtel 1305). Pointed out, however, that even if successful, Israel Government would be worse off because it might be "mortgaging future". Will endeavor obtain cash advance from Germans, but if unsuccessful may have to resort to borrowing offsetting reductions thus far this year in short term debt (see Embtel 1306).

4. Israel Government will in any event have to come to United States Government for "one time" special assistance after June 30. Proceeds to be used only for refunding purposes. Amount not specified.

Comment: While Israel Government has made progress in implementing Mikesell report, and while there are compelling arguments for eventually refunding Israel short term debts, Embassy-TCA feel refunding should, if possible, be (a) disassociated from emergency assistance to avert default and (b) identified with attainable balance of payments objectives and projections that go beyond 12 months.

¹ Neither printed.